



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination - **Sigma Risk Retention Group, Inc.**, as of December 31, 2012

ORDER

An Examination of **Sigma Risk Retention Group, Inc.** as of December 31, 2012 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 1st day of May, 2014, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Chester A. McPherson
Interim Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION
Sigma Risk Retention Group, Inc.
AS OF
DECEMBER 31, 2012

NAIC NUMBER 13557

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Washington, D.C.
February 11, 2014

Honorable Chester A. McPherson
Interim Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Interim Commissioner McPherson:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

Sigma Risk Retention Group, Inc.

hereinafter referred to as the “Company” or “Sigma RRG,” located at the office of its captive manager, Aon Risk Services, Inc., 1120 20th Street NW, Washington, DC 20036.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from November 13, 2008 through December 31, 2012, including any material transactions and/or events noted occurring subsequent to December 31, 2012, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with applicable accounting principles, annual statement instructions, and compliance with domestic jurisdiction laws and regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2008 through 2012. We placed substantial reliance on the audited financial statements for calendar years 2008 through 2011, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2012. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2012. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant non-compliance findings, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first examination of the Company.

HISTORY

General:

Sigma RRG was licensed as an association captive insurance company operating as a risk retention group under the captive insurance laws of the District of Columbia on November 13, 2008, and commenced business December 8, 2008.

The Company was formed by the affiliated members of the Grane Healthcare group of companies ("Grane") to provide medical professional and general liability coverage to member companies of Grane engaged in the development, ownership and management of facilities and businesses which deliver comprehensive healthcare solutions to older adults in the Commonwealth of Pennsylvania.

Membership:

The Company's articles of incorporation authorized the issuance of 10,000 shares of common stock with no par value. As of December 31, 2012, the Company had 7,290 issued and outstanding common stock shares at an issue price of \$500 per share. The Company's stock is owned equally by its member/policyholders, with each member/policyholder owning 135 shares of stock. All member/policyholders are members of Grane, which is ultimately owned by the following individuals: Richard A. Graciano, Jr. (33.33%), David F. Graciano (33.33%), Ross J. Nese (25%) and Jeffrey J. Graciano (8.34%).

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT

Board of Directors and Officers:

The Company's directors serving as of December 31, 2012 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Richard Graciano, Jr. Pennsylvania	Chairman and Chief Executive Officer Grane Healthcare
Jeffrey Graciano Pennsylvania	Facility Design Director Grane Healthcare
David Kearney Pennsylvania	Chief Financial Officer Practical Administrative Solutions, LP
Ross Nese Pennsylvania	President Grane Healthcare

The Company's officers serving as of December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
Richard Graciano, Jr.	Chief Executive Officer
Ross J. Nese	President
Jeffrey J. Graciano	Vice President
David J. Kearney	Treasurer
Theresa Creagh	Secretary and General Counsel

Committees:

As of December 31, 2012, the Company's board of directors had established the following committees:

Audit Committee:

Richard A. Graciano, Jr.
Ross J. Nese
David J. Kearney
Richard Jovan
Patti Pallito

Investment/Finance Committee:

Richard A. Graciano, Jr.
Ross J. Nese
David J. Kearney
Jeffrey J. Brown

Underwriting Committee:

Richard A. Graciano, Jr.
Ross J. Nese
David J. Kearney
Richard Jovan

Conflicts of Interest:

Our review of the conflict of interest statements completed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

Aon Insurance Managers (USA) Inc. (Aon) is the Company's captive manager and provides captive management services including financial reporting and regulatory services to the Company.

FIDELITY BOND AND OTHER INSURANCE

CHC Management Company, an affiliate of Grane, maintains commercial crime insurance coverage in the amount of \$2,000,000, which provides various theft and fraud coverages. Sigma RRG is listed as a covered affiliate on this policy. This provides adequate coverage based on NAIC guidelines.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed in the District of Columbia and was registered as a risk retention group in the Commonwealth of Pennsylvania. During 2012, the Company wrote insurance premiums totaling \$2,344,406, all in Pennsylvania.

The Company was formed to provide medical professional and general liability coverage to affiliated members of Grane, a group of companies that primarily provides healthcare and related services to older adults residing in the Commonwealth of Pennsylvania.

The majority of the Company's policies provide professional liability coverage to members with limits of \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. For members participating in the Pennsylvania Medical Care Availability and Reduction of Error (MCARE) Fund, the professional liability policy limits are \$500,000 per occurrence with an annual aggregate of \$1,500,000. The MCARE Fund is a medical liability coverage fund run by the state of Pennsylvania. Sigma RRG provides the first \$500,000 layer and the second layer is covered by the MCARE Fund. In addition to the medical professional liability insurance, the Company provides its insureds with general liability coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in an annual aggregate. These coverages are on a claims-made basis. The Company also provides tail coverage on a claims-made basis for medical professional and general liability.

The Company has no employees and its daily business operations are managed by various service providers. During the examination period and as of the date of this report, the Company's captive manager, Aon, managed the Company's regulatory filings and financial reporting from its offices in Washington, DC. Captive Insurance Management Group ("CIMG") performed underwriting services, policy issuance, and MCARE premium billing and collection. Claims administration services and risk management are provided by Dickie, McCamey & Chilcote, P.C. ("DMC"). CIMG and DMC are both unaffiliated third party providers.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The financial position of the Company and its loss experience for the years under examination is presented in the following table. Information for the years 2008 to 2011 is prepared from information contained in the Company's annual statements filed with the Department. The amounts presented in the table for the year ended December 31, 2012 are determined by this examination.

	2012	2011	2010	2009	2008
Total admitted assets	\$ 13,161,589	\$ 10,992,223	\$ 9,824,271	\$ 7,304,236	\$ 5,721,430
Total liabilities	\$ 7,700,567	\$ 6,399,998	\$ 6,291,910	\$ 5,405,872	\$ 4,398,104
Total capital and surplus	\$ 5,461,022	\$ 4,592,225	\$ 3,532,361	\$ 1,898,364	\$ 1,323,326
Net cash from operations	\$ 1,591,518	\$ 1,043,768	\$ 1,286,600	\$ 376,229	\$ 2,538,171
Total adjusted risk-based capital	\$ 5,461,022	\$ 4,592,225	\$ 3,532,361	\$ 1,898,364	\$ 1,323,326
Authorized control level risk-based capital	\$ 758,181	\$ 589,037	\$ 496,197	\$ 409,007	\$ 500,267
Gross written premium	\$ 2,344,406	\$ 2,350,973	\$ 2,849,262	\$ 2,119,806	\$ 3,877,871
Ceded premiums written	\$ -	\$ -	\$ -	\$ 350,000	\$ 362,700
Premiums earned	\$ 2,348,556	\$ 2,537,604	\$ 2,096,860	\$ 1,080,577	\$ 2,578,058
Net underwriting gain	\$ 709,448	\$ 1,024,691	\$ 773,874	\$ 113,695	\$ 17,517
Net investment income	\$ 86,532	\$ (8,776)	\$ 47,142	\$ 15,795	\$ 2,031
Net realized capital gains (losses)	\$ 5,145	\$ (3,755)	\$ (19,354)	\$ -	\$ -
Net income	\$ 531,296	\$ 654,863	\$ 531,497	\$ 75,038	\$ 23,326
Net underwriting gain to PHS	13.0%	22.3%	21.9%	6.0%	1.3%
Net written premium to PHS	42.9%	51.2%	80.7%	93.3%	265.7%
Losses and LAE incurred	\$ 1,384,119	\$ 1,233,629	\$ 1,051,468	\$ 712,942	\$ 2,330,361
Other underwriting expenses incurred	\$ 254,989	\$ 279,284	\$ 271,518	\$ 253,940	\$ 230,180
Net loss ratio	58.9%	48.6%	50.1%	66.0%	90.4%
Expense ratio	10.9%	11.0%	12.9%	23.5%	8.9%

REINSURANCE

Assumed Reinsurance:

The Company did not assume any business during the examination period.

Ceded Reinsurance:

During the period December 8, 2008 to December 7, 2010, the Company maintained stop loss reinsurance coverage for its professional liability and general liability exposures. The limits were \$500,000 per loss occurrence excess of a \$500,000 per occurrence retention and a \$10 million annual aggregate limit excess of a \$5 million annual aggregate retention for all coverages combined.

Effective December 8, 2010, the Company non-renewed its reinsurance coverage and was given permission by the Department to operate without reinsurance, provided that the Company established a custodial account totaling \$750,000. See NOTE 1 in the “Notes to Financial Statements” section of this report for details regarding the Company’s custodial account.

ACCOUNTS AND RECORDS

The primary location of the Company’s books and records is at the offices of its captive manager, Aon, in Washington, DC.

The Company’s general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant issues with these records.

STATUTORY DEPOSITS

As of December 31, 2012, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States (“GAAP”), reflect the financial condition of the Company as of December 31, 2012, as determined by this examination:

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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

ASSETS

	<i>December 31, 2012</i>
Bonds	\$ 133,164
Common stocks	750,841
Cash (\$9,529,551), cash equivalents (\$0) and short-term investments (\$0) (NOTE 1)	<u>9,529,551</u>
Subtotals, cash and invested assets	\$ 10,413,556
Investment income due and accrued	\$ 1,426
Uncollected premiums and agents' balances in the course of collection	\$ 2,345,161
Net deferred tax asset	\$ 281,900
Aggregate write-ins for other than invested assets:	
MCARE receivable from insured	\$ 66,020
Deferred policy acquisition costs	51,931
Losses receivable	<u>1,595</u>
Total Aggregate write-ins for other than invested assets	\$ 119,546
Total	<u><u>\$ 13,161,589</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2012</i>
Losses (NOTE 2)	\$ 3,681,268
Loss adjustment expenses (NOTE 2)	1,538,405
Other expenses (excluding taxes, licenses and fees)	56,375
Taxes, licenses and fees (excluding federal and foreign income taxes)	61,890
Current federal and foreign income taxes	174,666
Unearned premiums	<u>2,187,963</u>
Total Liabilities	<u>\$ 7,700,567</u>
Common capital stock	\$ 3,645,000
Unassigned funds (surplus)	<u>1,816,022</u>
Surplus as regards policyholders	<u>\$ 5,461,022</u>
Total	<u><u>\$ 13,161,589</u></u>

STATEMENT OF INCOME

	<i>2012</i>
UNDERWRITING INCOME	
Premiums earned	\$ 2,348,556
DEDUCTIONS	
Losses incurred	\$ 870,222
Loss expenses incurred	513,897
Other underwriting expenses incurred	254,989
Total underwriting deductions	\$ 1,639,108
Net underwriting gain	\$ 709,448
INVESTMENT INCOME	
Net investment income earned	\$ 86,532
Net realized capital gains	5,145
Net investment gain	\$ 91,677
Net income after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	\$ 801,125
Federal and foreign income taxes incurred	269,829
Net income	\$ 531,296

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007	\$ 0
Net income, 2008	\$ 23,326
Surplus adjustments: Paid in	1,300,000
Net change in surplus as regards policyholders, 2008	<u>1,323,326</u>
Surplus as regards policyholders, December 31, 2008	<u>\$ 1,323,326</u>
Net income, 2009	\$ 75,038
Capital changes: Paid in	1,800,000
Surplus adjustments: Paid in	(1,300,000)
Net change in surplus as regards policyholders, 2009	<u>575,038</u>
Surplus as regards policyholders, December 31, 2009	<u>\$ 1,898,364</u>
Net income, 2010	\$ 531,497
Capital changes: Paid in	1,102,500
Net change in surplus as regards policyholders, 2010	<u>1,633,997</u>
Surplus as regards policyholders, December 31, 2010	<u>\$ 3,532,361</u>
Net income, 2011	\$ 654,863
Capital changes: Paid in	405,001
Net change in surplus as regards policyholders, 2011	<u>1,059,864</u>
Surplus as regards policyholders, December 31, 2011	<u>\$ 4,592,225</u>
Net income, 2012	\$ 531,296
Capital changes: Paid in	337,501
Net change in surplus as regards policyholders, 2012	<u>868,797</u>
Surplus as regards policyholders, December 31, 2012	<u>\$ 5,461,022</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: Cash

As of December 31, 2012, the Company reported "Cash and cash equivalents" totaling \$9,529,551. Included in this amount was cash of \$750,191 which was held in a custodial account established in 2010 upon request of the Department. Under terms of an "Insurance Company Custodial Agreement" executed with a third-party custodian, the custodian serves as custodian of the funds which are held for the benefit of the Department. Except upon written direction of the Commissioner, withdrawals from the account may not be made if as a result of a withdrawal the balance in the account would fall below \$750,000. Funds in the account must be comprised of cash and cash equivalents. The Company has discretion over the investments in the account within guidelines established by the Department, and is entitled to receive investment income on the funds.

In addition, \$6,784,208 of the \$9,529,551 was held in one institution and \$2,005,580 in another institution, both of which exceed the amount insured by the Federal Deposit Insurance Corporation ("FDIC"). During our examination, we noted that management periodically assesses the financial stability of financial institutions in which amounts in excess of FDIC limits are held.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling \$3,681,268 and \$1,538,405, respectively. These reserves represent management's best estimate of the net amounts necessary to pay all claims and related claims adjustment expenses that have been incurred but are still unpaid as of December 31, 2012. The Company does not discount its reserves.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2012, were reviewed as part of our examination. As part of our review, we relied on the work performed by the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our examination of the Company's reserves, we engaged an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The examination actuary utilized concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appeared sufficient.

COMMENTS AND RECOMMENDATIONS

During the examination, no issues warranting comments or recommendations in this examination report were noted.

CONCLUSION

Our examination disclosed that as of December 31, 2012 the Company had:

Admitted Assets	\$	13,161,589
Liabilities and Reserves		7,700,567
Common Capital Stock		3,645,000
Unassigned Funds (Surplus)		1,816,022
Total Surplus		5,461,022
Total Liabilities, Capital and Surplus	\$	13,161,589

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2012, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 (“CAPTIVE INSURANCE COMPANIES”) of Title 31 (“Insurance and Securities”) of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Amy Carter, AFE, Lewis & Ellis, Inc.

Lisa Marteney, CFE, CISA, AES, Lewis & Ellis, Inc.

The actuarial portion of this examination was completed by Kristine M. Fitzgerald, ACAS, MAAA, FCA and Steven P. Lattanzio, FCAS, MAAA, FCA of Actuarial & Technical Solutions, Inc.

Respectfully submitted,



Sarah Lucibello, CFE
Examiner-In-Charge
Lewis & Ellis, Inc.

Under the Supervision of,



Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

April 9, 2014

Ross J. Nese
President
Sigma Risk Retention Group, Inc.
C/o Aon Insurance Managers (USA) Inc.
1120 20th Street, NW, Suite 600,
Washington, DC 20036

RE: Examination of **Sigma Risk Retention Group, Inc.**, as of December 31, 2012

Dear Mr. Nese:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of Sigma Risk Retention Group, Inc. ("Company") as of December 31, 2012.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no "Comments and Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by May 9, 2014. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

Sigma Risk Retention Group, Inc.

1120 20th Street, NW,
Suite 600
Washington, DC 20036

Telephone: (202) 862-5339
Facsimile: (847) 953-3462

April 29, 2014

Mr. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
D. C. Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, DC 20002

RE: Examination of Sigma Risk Retention Group, Inc. as of December 31, 2012

Dear Mr. O'Donnell,

Sigma Risk Retention Group, Inc. (SIGMA) is in receipt of the draft copy of the Report on Examination ("Report") with regard to the affairs and financial condition of SIGMA. We accept the Report and we are not aware of any errors or omissions in the Report.

Thank you for your Bureau's efforts with regard to the examination of SIGMA.

Sincerely,



Ross J. Nese
President



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Interim Commissioner

May 1, 2014

Ross J. Nese
President
Sigma Risk Retention Group, Inc.
C/o Aon Insurance Managers (USA) Inc.
1120 20th Street, NW. Suite 600,
Washington, DC 20036

RE: Examination of **Sigma Risk Retention Group, Inc.**, as of December 31, 2012

Dear Mr. Nese:

We are in receipt of your response dated April 29, 2014, regarding the Report on Examination of Sigma Risk Retention Group, Inc. ("Company") as of December 31, 2012. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each jurisdiction in which the Company is registered and to the National Association of Insurance Commissioners.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures